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S E C R E T SECTION 01 OF 02 BEIRUT 000096

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NSC FOR ABRAMS/DORAN/MARCHESE/HARDING  
TREASURY FOR SENIOR INVESTMENT OFFICER MARK SPROLES  
DOS NEA/ELA FOR KATHERINE ALLEN  
DOS EB/ESC/TFS FOR LEANNE CANNON  
DEPARTMENT OF TREASURY FOR PATRICK HEFFERNAN

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SUBJECT: LEBANON: BANKS DENY RELATIONS WITH IRAN, HIZBALLAH

REF: 2006 STATE 203532

Classified By: Ambassador Jeffrey Feltman for reasons 1.4 (b) and (d).

SUMMARY

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¶1. (S) Pol-EconOff delivered reftel demarche to senior officials at six banks, per reftel request. The officials denied any current relations with Iran- or Hizballah-related entities, and reasoned that there is neither a market nor a political basis for such relationships. The officials told us they believe their due diligence practices are sufficient.

Most officials expressed satisfaction with their level of communication with U.S. banks and government agencies. One bank official asked that we increase informal communication about accounts of concern before making official designations, while a second official asked that the United States improve its guidance on terrorism finance compliance issues. End Summary.

¶2. (S) Pol-EconOff delivered reftel demarche to senior officials at Byblos Bank, BankMed, Banque Libano Francaise, Jammal Trust, Credit Libanais, and Lebanese Canadian Bank. Each bank acknowledged the implicit message of heightened U.S. attention on the issue, as well as the explicit message that conducting business with Iran- or Hizballah-related entities can compromise banks' reputations and the financial system at large. Each responded by describing their small or non-existent relations with Iranian banks or entities, and explained that they saw little market incentive to do business with Iran.

NO MARKET OR POLITICAL INCENTIVE  
FOR TIES WITH IRAN OR HIZBALLAH

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¶3. (S) Francois Bassil, Chairman of Byblos Bank, told us the bank has no Hizballah-related accounts. One customer, a fertilizer producer in Chekka, exports fertilizer to Iran, and the bank has facilitated two or three letters of credit from Iranian private banks. There is little Lebanon-Iran business, but Byblos occasionally provides letters of credit via European banks doing business with Iran for commodities or equipment, but not for long term businesses or for the bank itself. There are no Iran-related NGO accounts at the bank. Bassil visited Iran twice in 1973 and 1996 with then-Finance Minister Fouad Siniora in an official

delegation, and tried to initiate business there but failed. Since the 1980s there has been no trade to finance and will not be until Iran opens, he explained. Lebanese banks are expanding regionally and globally, and do not want their problems to expand.

14. (S) Dr. Joseph Torbey, Chairman of Credit Libanais told us that Hizballah has no interest in dealing with Lebanese banks because those banks are pro-government. Similarly there is little or no business between Lebanon and Iran because of a lack of trust. Lebanese-Iranian trade is conducted between people affiliated with the two countries who pay for their transactions through their own channels, Torbey informed us.

AMPLE DUE DILLIGENCE, BUT  
NO CONTROL OVER CLIENTS' LOYALTIES  
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15. (S) Officials at two banks reassured us that they follow all due diligence best practices, but cannot control how clients use their personal accounts. Anwar Jammal, Chairman and General Manager of the Shia-owned Jammal Trust Bank, twice asked whether U.S. concerns were with Shia banks alone. To the best of his knowledge the bank has no dealings with Hizballah, but Jammal noted that he has no way of knowing the sympathies of his Shia clients. Jammal runs the names of its 60,000 clients against the Office of Foreign Asset Control (OFAC) and Lebanese Central Bank Special Investigation Committee (SIC) lists daily but has yet to come up with a single match indicating a suspect account holder. The bank's compliance officers check not only names but civil registration numbers and mothers' maiden names. Jammal Trust

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Bank has in the past had inquiries from the SIC about questionable accounts but has never had an inquiry from OFAC. Jammal has no business with the state banks of Iran and no current relations with any Iranian banks.

16. (S) Farid Raphael, President and Director General, and Walid Raphael, Deputy General Manager of Banque Libano-Francaise (BLF), told us that the bank has no Hizballah-related accounts, and noted that their bank was not named on an MSNBC report this summer accusing some Lebanese banks of financing Hizballah. However, the bank cannot tell when an individual's account is being used by a larger group or another individual. BLF reviews the OFAC and SIC lists of suspect accounts regularly and is always willing to check informally on a suspect account brought to its attention. A year ago BLF ceased financing Brazilian agricultural exports to Iran for political reasons, although they had no qualms about the Iranian partner. The Raphaels threw the onus back on the United States to better track the use of dollars by Hizballah and Iran. They related a rumor that Hizballah members recently paid Lebanese citizens in freshly minted U.S. dollars bound with the seal of an Iranian bank, suggesting that U.S. officials should be tracking the serial numbers of dollars used by Iran to discover who has financial relations with that country.

"HELP US HELP YOU"  
THROUGH INFORMAL CLOSURE REQUESTS  
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17. (S) Two banks reacted with comments about bilateral communication on accounts of concern. "Help us achieve your goals," Georges Zard Abu Jaoude, Chairman of Lebanese Canadian Bank asked us, by giving discreet warnings and informally requesting account closures before making international designations. More guidance -- informal or formal -- on how to prevent problems would be better for the bank than to be told of mistakes after the fact. Abu Jaoude commented that he personally embraces U.S. policy on Hizballah but the group has "kidnapped" the Shia community in Lebanon, implying that it is hard for the bank to identify

when an individual account may be used for a Hizballah-related transaction. The bank has strong due diligence practices and has closed the accounts of many people who have a tenuous relationship with Hizballah, in order to protect the bank's 800 shareholder families. On Iran, Abu Jaoude said the bank has no Iran-related business and refused a recent request to provide a letter of credit for an Algerian-Iranian transaction. The bank's aggressive compliance officers closed a number of Iran-related NGO and businesses accounts nearly a year ago, causing great friction between the Christian and Shia bank employees.

18. (S) Fouad Saad, Deputy General Manager, and Mazen Sueid, Senior Economist, at BankMed told us bilateral communication on the issue of asset freezes is good, with U.S. banks and the U.S. government clear on their needs, Saad told us. Bank secrecy laws are among the few issues that slow BankMed's action on suspect accounts, as the bank must take its concerns through legal or audit channels or through a general manager before closing accounts. Saad told us the bank has no relationship with the Iranian government or Iran- or Hizballah-affiliated entities.

COMMENT

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19. (S) Addressing the demarche to the banks' "senior most officials" per the reftel request ensured that the message was delivered politically, but did not open up a dialogue with compliance officials, something that exists through other channels.

FELTMAN